

Message Text

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21

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PASS FEDERAL RESERVE FOR TERRELL AND TREASURY DEPT FOR SYVRUD

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FINANCE MINISTRY VIEWS ON FOREIGN BANKING OPERATIONS

REF: TERRELL-ESCOUBE COMMERCIAL CABLE 4/17/76

1. SUMMARY: IN RESPONSE TO FEDERAL RESERVE BOARD REQUEST, BANKING BUREAU OFFICIALS AT MINISTRY OF FINANCE PROVIDED ANSWERS TO QUESTIONS POSED IN REFTEL. IN GENERAL, THERE IS NO CHANGE IN MOF POLICY TOWARD FOREIGN BANKING OPERATIONS IN JAPAN OR ABROAD. IT IS CLEAR THAT MOF IS STILL VERY UNCERTAIN EXACTLY WHAT BANKING BUSINESS TOKYO BANK INTERNATIONAL (TBI) WILL BE ABLE TO CONDUCT IN HOUSTON AS AN AGREEMENT CORPORATION" AND THEREFORE OFFICIALS ARE UNABLE TO DECIDE AT THIS TIME WHETHER TO EXTEND RECIPROCITY TO TEXAS BANKS. END SUMMARY.

2. FINATT AND ASST FINATT MET WITH MOF BANKING BUREAU OFFICIALS (YASUTAKA MIYAMOTO, DIRECTOR, AND KOICHI KAITEYA, DEPUTY DIRECTOR, COMMERCIAL BANKS DIV) AFTER HAVING GIVEN THEM ADVANCE COPIES OF QUESTIONS 1 AND 3 IN REFTEL. MOF
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REPLIES, AS GIVEN IN PARAS BELOW, ARE VIRTUALLY IDENTICAL

TO THOSE GIVEN BY KAITEYA TO LOW-KEY TELEPHONE INQUIRY BY ASST FINATT ONE MONTH AGO. FINATT NOTED TO OFFICIALS THAT ON SEVERAL PAST OCCASIONS FRB GOVERNORS AND BANK PRESIDENTS HAVE HAD EXTENSIVE DISCUSSIONS OF SUBJECT WITH SENIOR GOJ OFFICIALS AND BANKING COMMUNITY. PRESENT INQUIRY WAS MERELY A SIGN THAT SUBJECT IS STILL OF INTEREST TO FRB.

3. QUESTION ONE: WHAT IS THE CURRENT ATTITUDE OF THE JAPANESE AUTHORITIES CONCERNING ENTRY BY U.S. BANKS INTO JAPAN? ANSWER: MOF POLICY CONTINUES TO BE 'OPEN' TO ESTABLISHMENT OF BRANCHES IN JAPAN OF ADDITIONAL FOREIGN BANKS. OFFICIAL CITED PRINCIPLE OF "RECIPROCITY" WHICH HE SAID DID NOT NECESSARILY MEAN NUMERICAL EQUIVALENCY. IN GENERAL, POLICY HAS BEEN RECIPROCITY COUNTRY BY COUNTRY BUT, SAID OFFICIAL, BECAUSE IN THE U.S. LAWS IN CERTAIN STATES HAMPER OR CLOSE OUT JAPANESE BANKS, THIS ASPECT OF U.S. BANKING IS TAKEN INTO ACCOUNT BY MOF IN GRANTING PERMISSION FOR U.S. BANKS TO OPEN BRANCHES IN JAPAN. (COMMENT: FINATT REMARKED THAT ON PREVIOUS OCCASIONS MOF AND FRB OFFICIALS NOTED THEIR DIFFERING POLICIES IN U.S. AND JAPAN REGARDING NATIONWIDE BANKING.

4. QUESTION 1(A): DOES THE MINISTRY OF FINANCE CONSIDER TBI AS SUFFICIENT BASIS FOR EXTENDING RECIPROCITY TO TEXAS BANKS? ANSWER: MOF DOES NOT KNOW WHAT KINDS OF BANKING BUSINESS TBI WILL OR WILL NOT BE PERMITTED TO UNDERTAKE. IT IS EVIDENT MOF OFFICIALS HAVE STUDIED FRB ACT SEC 25(A) AND REG K BUT IT IS CLEAR FROM CONVERSATION THAT OFFICIALS ARE COMPLETELY IN THE DARK AS TO WHAT IT MEANS IN ACTUAL PRACTICE TO "CONDUCT BUSINESS." (FINATT COMMENT: OFFICIALS ARE CAUTIOUS IN LICENSING TEXAS BANKS IS BECAUSE THEY ARE AFRAID OF "BUYING A PIG IN A POKE." ON PREVIOUS OCCASIONS MOF AND JAPANESE BANKS HAVE BEEN PERPLEXED ABOUT SCOPE OF EDGE ACT CORPORATIONS BUT "AGREEMENT CORPORATION" SUCH AS TBI IS APPARENTLY EVEN MORE OF A MYSTERY. FINATT URGED MOF TO HAVE THEIR REPS IN WASHINGTON AND/OR NEW YORK DISCUSS WITH FRB OFFICIALS WHAT KINDS OF BANKING OPERATIONS THE LAWS AND REGS PERMIT AND PROHIBIT. IT IS UNLIKELY THAT TEXAS BANKS' APPLICATIONS FOR BRANCH STATUS WILL BE CONSIDERED UNTIL MOF IS LIMITED OFFICIAL USE

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CONVINCED THAT AGREEMENT CORPORATION IS AT LEAST EQUIVALENT TO EDGE ACT CORPORATION. MOF MAY TAKE CONSIDERABLE TIME IN DECIDING WHETHER TBI IS A "SUFFICIENT BASIS FOR EXTENDING RECIPROCITY."

5. QUESTION 1(B): IS THE MINISTRY OF FINANCE CONSIDERING ALLOWING OTHER BANKS TO ESTABLISH AGREEMENT CORPORATIONS IN TEXAS SIMILAR TO TBI? ANSWER: FOLLOWING ANNOUNCEMENT OF

FORMATION OF TBI, NO OTHER JAPANESE BANKS HAVE YET SHOWN INTEREST TO MOF IN ESTABLISHING SIMILAR CORPORATION. OFFICIALS WOULD BE SURPRISED IF OTHER BANKS WERE TO TRY TO MAKE AN ADVANCE "RAPIDLY" INTO TEXAS. JAPANESE BANKS KNOW THAT IT HAS BEEN MOF POLICY TO GIVE BANK OF TOKYO (AS SOLE BANK ESTABLISHED UNDER SPECIAL FOREIGN BANK ACT) PRIORITY IN ENTERING NEW OVERSEAS MARKETS. (ALSO SEE PARA 8 BELOW.)

6. QUESTION 2: WHAT RESTRAINTS ON THE OPERATIONS OF U.S. BANKS ARE CURRENTLY CONSIDERED DISCRIMINATORY AND ARE THE SUBJECT OF COMPLAINTS BY U.S. BANKS? REPLY: FINATT CHECK WITH SEVERAL WELL-ESTABLISHED AND LARGE U.S. BANKS IN JAPAN BROUGHT FORTH "NO GREAT CAUSE FOR COMPLAINT AT PRESENT TIME." INCREASE IN CREDIT CEILINGS FOR U.S. BANKS HAS BEEN SOMEWHAT LARGER PERCENTAGEWISE THAN FOR JAPANESE BANKS, IN PART BECAUSE U.S. BANKS HAVE RECENTLY BEEN ABLE TO INCREASE THEIR SWAP LINES AND TO MAKE NEW DOLLAR MEDIUM-TERM INPACT LOANS (BECAUSE OF THE BALANCE OF PAYMENTS SITUATION). DISCRIMINATORY TREATMENT IN OPENING OF ADDITIONAL BRANCHES WAS CITED AS AN IRRITANT BUT NOT RESTRAINING CURRENT OBJECTIVES. ONE BANKER WAS NOT SURE OF THE BENEFITS TO COST OF OPENING 20 TO 40 BRANCHES IN JAPAN IN ORDER TO ESTABLISH AN ADEQUATE SOURCE OF YEN DEPOSITS. ANOTHER BANKER HAS BEEN UNABLE TO GET GOJ APPROVAL TO BOOK FOREIGN CURRENCY LOANS IN TOKYO MADE TO SE ASIAN COUNTRIES WITH OFFSHORE FUNDS.

7. QUESTION 3: WHAT IS CURRENT MOF POLICY TOWARDS ALLOWING U.S. BANKS TO ESTABLISH ADDITIONAL BRANCHES OUTSIDE TOKYO; HOW ARE THESE RESTRAINTS DIFFERENT FROM THOSE PLACED ON LOCAL BANKS? ANSWER: MOF POLICY IS TO GIVE FIRST PRIORITY TO REQUESTS FROM U.S. BANKS WISHING LIMITED OFFICIAL USE

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TO ESTABLISH THEIR INITIAL BRANCH IN JAPAN. CURRENTLY FIVE U.S. BANKS HAVE ONLY REP OFFICES, NAMELY, THREE TEXAS BANKS, FIRST UNION NATIONAL BANK OF NORTH CAROLINA AND ALLIED BANK INTERNATIONAL. BECAUSE JAPAN IS A SMALL COUNTRY, OFFICIAL SAID, SECOND BRANCH WAS NOT ESSENTIAL FOR A FOREIGN BANK. MOREOVER, SEVERAL U.S. BANKS ALREADY HAD BRANCHES IN ADDITION TO TOKYO. IN THE FUTURE MOF MIGHT CONTEMPLATE GIVING OTHER U.S. BANKS AN OPPORTUNITY TO ESTABLISH A SECOND BRANCH IN JAPAN. (FINATT COMMENT: OFFICIALS NEVER ANSWERED QUESTION OF THE DIFFERENT CRITERIA FOR FOREIGN AND LOCAL BANKS. FINATT DID POINT OUT THAT JAPANESE BANKS DOING BUSINESS IN CALIF (THE SAME SIZE AS JAPAN) FOUND IT NECESSARY TO HAVE BANKING LOCATIONS IN VARIOUS PARTS OF THE STATE.)

8. TWO WEEKS AGO REPS OF ALL THREE TEXAS BANKS IN TOKYO RECENTLY TOLD FINATT THEY HAVE BEEN APPROACHED IN RECENT WEEKS BY VARIOUS JAPANESE REGARDING POSSIBLE EMPLOYMENT OPPORTUNITIES SINCE IT WAS THEIR UNDERSTANDING THAT TEXAS BANKS WOULD BE GRANTED LICENSES IN THE NEAR FUTURE. IN ADDITION, FUJI BANK HAD CALLED ON ALL THREE REPS OFFERING THEIR SERVICES WITH REGARD TO FUTURE STAFFING, YEN DEPOSITS, ETC. WHENEVER THEY ESTABLISH THEIR BRANCHES. A BANK OF DALLAS REP HAD BEEN CALLED BY JUNIOR MOF OFFICIAL WITH A HALF DOZEN GENERAL QUESTIONS ABOUT THE BANK WHICH HAD BEEN ANSWERED IN WRITING. ALL THREE REPS ARE PUZZLED AND IRRITATED WONDERING WHETHER JAPANESE BANKERS KNOW MORE ABOUT ACTIVE MOF CONSIDERATION OF THEIR BRANCH APPLICATIONS THAN THEY DO. AT PRESENT NONE IS HOPEFUL ABOUT RECEIVING A LICENSE UNTIL SOMETIME NEXT YEAR. (COMMENT: FINATT MENTIONED TO MOF OFFICIALS ABOUT EMPLOYMENT INQUIRIES AND FUJI BANK INTEREST IN THE TEXAS BANKS, BUT IT WAS APPARENT MOF OFFICIALS WERE UNAWARE OF THIS.)
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